

Study in Dividend Investment Strategies

High Yield vs. High Dividend Growth

2008-2014

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Study Objectives

Determine which dividend strategy – high yield or high growth outperforms over the period 2008 – 2014

Research Approach

- Sample Universe: S&P 500
- Sort stocks into yield and growth cohorts
- Calculate returns for yield and growth intervals on yearly basis
- Time Period: 2008 – 2014
- Time Frequency: Annually
- Data Sets:
 - (1) S&P 500 by Dividend Yield
 - (2) S&P 500 Stocks by Dividend Growth

Model Specification

- $R_{it} = A + B (DYLD_{it})$
- $R_{it} = A + B (DGR_{it})$
- Nomenclature

R_{it} = Return to i th Cohort at time t
- $DYLD_{it}$ = Dividend Yield
- DGR_{it} = 1 Year Dividend Growth Rate

Table 1: Yearly Returns by Yield

| Year/Yield | 0.01 - 0.99 | 1.00 - 1.99 | 2.00 - 2.99 | 3.00 - 3.99 | 4.00 - 4.99 | 5.00 - 5.99 | 6.00 - 6.99 | S&P 500 Total Returns |
|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------|
| 2008 | -37.51% | -29.78% | -31.49% | -29.67% | -34.40% | -36.32% | -32.14% | -36.99% |
| 2009 | 53.13% | 41.44% | 34.17% | 23.57% | 20.70% | 6.78% | 20.75% | 26.45% |
| 2010 | 27.59% | 24.05% | 19.40% | 12.75% | 13.94% | 11.06% | 24.08% | 15.08% |
| 2011 | 4.00% | 0.79% | 1.45% | 5.43% | 9.19% | 11.25% | -21.34% | 2.09% |
| 2012 | 27.44% | 22.96% | 15.07% | 11.89% | 10.32% | -0.76% | 22.07% | 15.88% |
| 2013 | 42.93% | 43.10% | 32.48% | 22.19% | 17.59% | 6.25% | 10.43% | 32.36% |
| 2014 | 16.55% | 14.10% | 14.04% | 12.45% | 9.75% | 13.10% | -17.93% | 13.66% |
| Average Return: | 19.16% | 16.67% | 12.16% | 8.37% | 6.73% | 1.62% | 0.85% | |

Table 2: Returns by Growth Rate

| Year/Growth Rate (%) | 0 - 5 | 5 - 10 | 10 - 15 | 15 - 20 | 20 - 40 | 40 - 60 | 60 - 100 | S&P 500 Total Returns |
|----------------------|---------|---------|---------|---------|---------|---------|----------|-----------------------|
| 2008 | -33.71% | -25.79% | -30.77% | -30.02% | -32.53% | -31.41% | -43.33% | -36.99% |
| 2009 | 27.62% | 26.00% | 32.94% | 28.21% | 30.22% | 21.65% | 90.00% | 26.45% |
| 2010 | 17.45% | 20.05% | 19.12% | 23.84% | 30.26% | 45.35% | 37.63% | 15.08% |
| 2011 | 5.38% | 7.85% | 2.84% | 10.36% | 3.98% | 4.39% | -11.79% | 2.09% |
| 2012 | 12.50% | 14.48% | 15.19% | 9.65% | 17.96% | 28.99% | 29.31% | 15.88% |
| 2013 | 27.59% | 36.35% | 34.90% | 39.83% | 41.76% | 37.71% | 38.14% | 32.36% |
| 2014 | 17.47% | 14.45% | 7.82% | 7.99% | 7.42% | 16.62% | 6.90% | 13.66% |
| Average Return: | 10.61% | 13.34% | 11.72% | 12.84% | 14.15% | 17.61% | 20.98% | |

Table 3: Regression Results: 2008 -2014

| X Variable | b | t Stat | R2 |
|------------|-------|--------|------|
| DYLD | -0.03 | -16.67 | 0.98 |
| DGR | 0.001 | 10.11 | 0.95 |

Findings:

- Returns Decline as Yields Increase
- Returns Increase as Dividend Growth Increases

Conclusion:

Combination of low yield and high dividend growth stocks provided optimal dividend strategy.